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THE CASE FOR THE ALBERTA WHEAT POOL



ISSUED BY
ALBERTA WHEAT POOL
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INTRODUCTION

Violent domestic controversy in wartime is objectionable. The Alberta Wheat Pool, however, considers it to be necessary to publish this pamphlet in reply to a serious attack launched by the grain trade of Western Canada against the Western Wheat Pools during the early part of May. Virtually every weekly newspaper in the Prairie Provinces carried large grain trade advertisements, reflecting on the honesty, integrity and loyalty of the Wheat Pool organizations. Furthermore, letters by the thousands containing this anti-Pool propaganda were mailed to farmers all over the west and also to businessmen in cities, towns and villages. In addition a liberal supply of the material was distributed far and wide in Eastern Canada.

Here is the case for the Alberta Wheat Pool. Farmer readers can provide a more effective answer by delivering their grain to Alberta Pool Elevators. Such a line of conduct will hit the grain trade where it hurts most.

Residents of villages, towns and cities are asked to peruse the following pages with an open mind. The Wheat Pools are not aiming at class warfare. As farmer co-operative organizations they are merely seeking to obtain, under our system of free democracy, the consideration for agriculture to which it is entitled by the importance of that industry in the economy of the Canadian nation.

THE CASE FOR THE ALBERTA WHEAT POOL

The line elevator corporations of Western Canada, some 32 in number, have launched an attack against the Alberta Wheat Pool. The accusations include:

Breaking faith with Pool members by not paying interest on reserves.

Cheating Pool members by redeeming five per cent of the reserves.

Evading Dominion Income and Excess Profits Tax and thus failing in the proper support of Canadian soldiers and Canada's war effort.

This is a continuation of a long-standing controversy between the Pools and the grain trade of Western Canada. The former are farmer co-operative organizations with a membership totalling around 150,000. The latter is an association of elevator corporations which held a virtual monopoly of the grain handling business in the prairie provinces until the Pool movement started in 1923. The two are natural enemies with opposing viewpoints.

This new outbreak of criticism against the Alberta Pool is primarily due to the decision made by the Pool delegates at the annual meeting held in November, 1941, to pay a patronage dividend of 1/4 of a cent a bushel on grain delivered to Alberta Pool elevators in the crop years 1938-39 and 1939-40. This payment will amount to well over \$200,000, and cheques will be issued during July, 1942. The delegates also decided to redeem five per cent of the reserves contributed by members during the period 1923-1928. An explanation of this redemption plan is given later on.

The grain trade has opposed patronage dividends for many years. In 1906 the young Grain Growers Grain Company, formed by prairie farmers, was expelled by the Winnipeg Grain Exchange for promising to pay patronage dividends. Ever since then the grain trade has fought desperately against any such an innovation.

What Are and Who Own the Wheat Pools?

The Alberta Pool is an organization of 43,000 farmers. The three western Pools have a total membership of around 150,000. These members are the sole owners of the Pool properties which include some 1,600 country elevators, and ten terminals. The set-ups are a little different in each province. The Alberta Pool organization is as follows:

Alberta is divided into seven districts for Pool purposes and each district is further divided into ten sub-districts. Each of the 70 sub-districts elect a Pool delegate for a two-year term, half the delegate body coming up for election each year. The ten delegates in each district elect their own director each year. There are seven directors, who meet once a month to direct Pool policies. These policies are laid down at the annual meeting of delegates, held in November of each year.

Directors and delegates must be Pool members and engaged in farming. All of the present directors are working farmers.

Previous Patronage Dividend Policy

During the first five years of the Alberta Wheat Pool's existence approximately \$8 million was contributed by members to provide capital to build some 425 country elevators as well as two terminals, and to operate the same. These Pool facilities were constructed because fair and equitable treatment was denied the farmers by the grain trade. The policy laid down for the operation of the Alberta Pool elevators provided for service at cost to the farmers. Thus a system of patronage dividends was inaugurated and payments made to farmer patrons as follows:

1926-27.....	\$ 327,196.05
1927-28.....	960,262.13
1928-29.....	488,570.13
Total.....	<u>\$1,776,028.31</u>

Interest on the reserve funds contributed was also paid to the total of \$631,253.09 in the period referred to above.

The Pool's Role in Stabilization

When the disastrous decline in the price of wheat developed in the crop year 1929-30 the Wheat Pools, in undertaking a measure of wheat price stabilization, incurred a liability of \$22 million. The Alberta Pool's share was about \$6,400,000. Since that time the Federal Government has, through the Canadian Wheat Board, undertaken the duty of stabilizing wheat prices, deeming it a matter of such importance that it should be the responsibility of all the people of Canada. The risk has run into many millions of dollars but, in the opinion of the people of Canada, as expressed in the House of Commons, it has been well worth the price.

In the depression years and the years of huge wheat surpluses and disorganized world markets the governments of every country, where wheat is a problem of primary importance, carried the burden and the expense of wheat price stabilization. In ten years the United States government spent almost ten billions of dollars of the taxpayers' money in support of farm prices. In Great Britain the government guaranteed domestic wheat growers a price for wheat substantially higher than world market prices. Right now the British wheat price is \$1.91 a bushel. In Italy the cost of wheat price stabilization over ten years is calculated at over a billion dollars.

In Canada it was the example of the Wheat Pools in 1929 and 1930 which induced the Federal Government to put in a wheat price stabilization policy, but the Pools had to carry the financial loss of the first year. In no other country was a single organization, co-operative or otherwise, called upon to carry such a heavy load and make such a great financial sacrifice.

Alberta Pool Debt Re-Payment Record

The Alberta Government guaranteed the Alberta Wheat Pool's overpayment. The Pool has been using the excess earnings, which would have gone to Pool members, to repay the government. If it had not done so the taxpayers of Alberta would have had to carry

the burden. But the Pool delegates, elected representatives of all the farmer members, maintained that in all honor and integrity the money should be repaid to the Alberta Government.

During the past ten years the Alberta Wheat Pool has paid to the Alberta Government the following total sums on its debt:

Interest.....	\$2,454,837.50
Principal.....	1,883,500.00
Total.....	<u>\$4,338,337.50</u>

That is why Pool members have not been receiving interest and patronage dividends in recent years. But now the organization is in shape to begin to issue such payments. For years the grain trade has been "mum" about all this because it did not believe that the Alberta Wheat Pool could recover itself financially. Now it sees that the Pool is going to resume patronage payments, and is irritated.

Note: In addition to the above payments to the Alberta Government, the Alberta Wheat Pool cleared off a \$2,000,000 debt to the banks on the loan incurred to build its 5,000,000 bushel terminal at Vancouver.

All Should Be Treated Alike

The head office of the Alberta Wheat Pool is located in Calgary. In this city electricity is distributed by a municipally owned plant, the waterworks system is operated by the corporation, and the street railway is also municipally owned and operated. The same practice is followed in the capital city of Edmonton and in progressive cities all over the continent. The reason for this development of municipal ownership is to prevent the exploitation of the citizens by profit-seeking corporations.

These municipal enterprises are not subject to federal income tax nor excess profits tax for the reason that the federal government believes that when people unite to effect a savings for themselves they should be given every encouragement.

Heretofore the federal government has classified farm co-operative organizations in the same category as municipally owned enterprises. The grain trade has been using all the political power its financial strength gives it to persuade the government to tax the Pools.

The Alberta Wheat Pool is in exactly the same position as a municipally owned enterprise. It is a group of farmers who have joined together to erect elevators to perform a service and create a saving for themselves. They are doing exactly what the citizens of Calgary, Edmonton and other municipalities are doing.

The Alberta Wheat Pool has not sought to evade federal income tax, as the grain trade asserts. The Pool has never been assessed for income tax by the federal government. The governmental policies of both Canada and the United States have provided for tax exemption for co-operative associations in the belief that whenever people get together and pool their capital to form a co-operative and effect

savings for themselves, they are engaged in an endeavor that is worthy of every encouragement.

The grain trade says it is much interested in the price of grain to western farmers, and has been agitating publicly for higher prices, but in this instance it is trying to deprive many thousands of prairie farmers from getting patronage dividends on the grain they have delivered to Pool elevators.

Who Is To Blame For "Bare-Fisted" Soldiers?

The grain trade says that if every corporation in Canada failed to contribute to the federal income tax department in the same manner as the Alberta Wheat Pool, Alberta soldiers would have to fight German and Japanese tanks, guns and dive bombers with their bare fists.

The Alberta Wheat Pool is a group of 43,000 Alberta farmers, so that they all come under this accusation. The same charge is being leveled at farmers in Manitoba and Saskatchewan.

The farmers of Western Canada, in the past 32 years, have produced over ten billion dollars worth of new wealth in the form of grain. This wealth has virtually all gone eastward in a golden river to build great cities, immense manufacturing plants and huge financial institutions. The west has been pretty well swept clean.

The bulk of the armament manufacturing is centered in the east. That is where the big money is being spent, for which all Canada must eventually pay.

The job of the west is to produce food. When the war broke out the only substantial surpluses of anything in Canada were food surpluses. There is enough wheat in Canada right now to supply Canadian requirements for three years.

If Canadian soldiers have to fight German and Japanese tanks, guns and dive bombers with their bare fists the fault does not lie with the western farmer. The prairie farmer's job was to see that the Canadian soldier did not have to fight on empty stomachs. The financier's and manufacturer's job was to see that they had armaments.

The suggestion that western farmers have had anything to do with our soldiers being poorly equipped for battle is a slander against Western Canada.

The farmers of Western Canada have had a hard time in the past dozen years. Wheat prices touched the lowest depth in 300 years of world history, drouth ravaged the prairies year after year in close succession, and debts, accumulated in good times, pressed hard on the bankrupt farmers. At best the average cash return of the ordinary farmer is small and the farm standard of living is much lower than that of the cities.

War has not brought the degree of prosperity to agriculture that it has to industrial centers. The trend of the conflict cut off continental European markets, and the enormous surpluses of wheat, created by a chaotic world situation, kept wheat prices down to abnormally low levels even for peacetime.

An illustration of the difference between this war and the last one is furnished by the following table showing the production and value of wheat in 1917 as compared with 1941.

	1917	1941
Prairie wheat production.....	233,742,850 bus.	279,000,000 bus.
Average net price per bus.....	\$1.94	\$.50
Net value.....	\$453,038,600	\$139,500,000

Thus, while the wheat production in 1917 was 45,257,150 bushels *less* than in 1941, western farmers in 1917 received \$313,538,600 *more* for their crop than the wheat farmers in 1941 received for their greater production.

During the past two years western farmers have been receiving an average net price for wheat of around 50c a bushel. That figure is away below cost of production on the average prairie farm. The price for the 1942 crop has been raised to 90c for 1 Northern at the terminal. The net price to the farmer will average around 70c at the local delivery point in Alberta.

The cost of producing wheat, as calculated in the period 1923-1930 on eight Dominion experimental farms in Western Canada, averaged 64c a bushel on an average yield of 27 bushels to the acre. The average wheat yield in Alberta in 1941 was 13.3 bushels to the acre. In 1940, when the province raised its record wheat crop, the average yield was 21.6 bushels an acre.

Surely the western farmer is making a real contribution to the war effort by supplying food at *less than the cost of production*. He is no profiteer!

"Peter and Paul" and The Robbers

The grain trade in its abusive attack on the Pools made the statement: "The reason the Wheat Pool has been able to pay a patronage dividend is that it is performing the old feat commonly known as 'robbing Peter to pay Paul'. In this case it may be more aptly expressed as 'robbing Peter to pay Peter'."

During the past 40 years the farmers of Western Canada have paid to the grain trade the cost of building every country elevator and every terminal many times over, and the grain trade still owns the elevators. Both "Peter and Paul" had a tough ride in those years of monopoly, and neither ever had any money returned to them. On the other hand the farmers who contributed the money to build Pool elevators still own them. The grain trade has never returned a dime to farmers. Furthermore, it has, in the years prior to the Wheat Pools, rendered abortive every effort of co-operative elevator organizations to pay patronage dividends.

The Wheat Pools' financial affairs are public property because Wheat Pool delegates and members are kept informed of every phase of the whole setup, and this means that the general public, including the grain trade, also has access to the information.

What has the grain trade done with all its profits? It never incurred any liability for price stabilization, and it never paid patronage dividends to farmers. Watered stock, interest defaults, financial reorganizations and suspicious deals have developed from time to time in grain trade circles in recent years.

Instead of criticizing the financial affairs of the Alberta Wheat Pool, the grain trade should see that its own financial affairs are in decent order.

The 5% Reserve Redemption

When the Alberta Wheat Pool assumed the \$6,400,000 indebtedness in 1931 it was in a critical financial position. All its assets were pledged to the Alberta government. Pool credit was so low the lending banks refused to take Alberta Wheat Pool bonds even with the provincial government guarantee placed thereon. So the Alberta government gave the banks its own bonds and took Pool bonds in lieu thereof. Since then each annual payment of interest and principal has been met promptly and in full by the Alberta Wheat Pool.

The members' equity in the organization was, of course, severely impaired, and interest on reserves had to be foregone. Nevertheless, loyal and substantial patronage over the intervening years has restored the Alberta Pool to a much improved financial position.

At the 1941 annual meeting of delegates it was decided to redeem five per cent of the \$8,000,000 reserves in cash. While earnings did not justify payments of interest thereon over the years, it was held by the delegates that a return of a portion of the capital at 100 cents on the dollar was a reasonable and justifiable policy to adopt. The reserves thus redeemed will, it is proposed, be used to pay patronage dividends, as such dividends may be paid in cash, reserves, or in both. In this way ownership in the organization will, to a large degree, be maintained in the hands of working farmers. This is known in co-operative circles as the "revolving door" plan.

Real Achievements

Even if the Wheat Pools never paid a cent in dividends, their successful activities in gaining improved wheat prices has meant many millions of dollars of more income for all western farmers. The Pools are directly responsible for the formation of the Canadian Wheat Board, which organization has saved the prairie wheat farmer from utter ruin. The Pools, notably the Saskatchewan Wheat Pool, which organized the journey of a delegation of 400 western farmers to Ottawa, played the leading role in obtaining a 20c advance in the price of wheat for 1942.

The grain trade originally opposed any such ideas. In December, 1933, the Searle Grain Co., in its bulletin, said: "It can therefore be said that a vital necessity for the continued welfare of the producer is that the price of wheat should be permitted to fluctuate in accordance with the price fluctuations of competing food-stuffs. It can also be said therefore that a 'fixed' 'stabilized' or 'pegged' price for wheat would in the end produce great hardship on the producer. . . ." That month the price of cash wheat at the terminal averaged a little above 60c a bushel for 1 Northern grade.

The Winnipeg *Free Press*, Dec. 4, 1934, credited H. G. L. Strange, of the Searle Grain Co., with the following remark, in quoting from his public speech: "Our welfare depends on Canada selling all (wheat) it produces regardless of price. We must let our prices drop."

In the past year or two the grain trade propagandists have, outwardly at least, had somewhat of a change of heart. This, too, may be a Pool accomplishment!

The Power of the Grain Trade

The Wheat Pools have as their enemy the strongest business organizations in Canada—the Northwest Line Elevators Association and its confrere, the Winnipeg Grain Exchange. The Pools cannot exercise the immense political power of its opponents, who are adroit and clever in their approaches to and contacts with business and political power. This has resulted in the Pools being grossly misrepresented throughout Canada and mostly in the eastern portion of the Dominion. There the Pools are portrayed as huge, wealthy, octopus-like structures, pseudo-co-operative in character, but refusing to pay out patronage dividends and using their money to solidify themselves in powerful positions. Western farmers know this picture to be a grotesquely false one, but eastern people do not know the facts. In witness whereof the following extract from *Hansard*, dated May 15th, 1941, is reprinted:

MR. HANSON (York-Sudbury): What is the position with respect to quasi-co-operatives? I understand there are substantial numbers of very large co-operatives in some provinces operating on the alleged theory that they are co-operative, but as a matter of fact they are operating exactly the same as any corporation, declaring dividends, never distributing their total profits among their shareholders or members, and they do not pay income tax. What is the position? Are they true co-operatives? The law, as I understand it, is that true co-operatives do not pay income tax. What is the position with regard to those which are in the in-between class, such as I suggest, and is there any reason why they should not pay income tax?

MR. ILSLEY: One would have to take individual instances and determine whether any particular co-operative or alleged co-operative was within the section exempting co-operatives. That is sometimes pretty difficult. I do not think there is very much more to be said about it than that. Apparently the section is fairly clear, but, like many clear sections, when it comes to applying it to a particular group of individuals and the business they are transacting it is often very difficult to know whether a concern is a co-operative within the meaning of the act, and important disputes have arisen as to whether certain business organizations are or are not within the exemption.

MR. HANSON: The definition is found in part II, section 4, of the Income War Tax Act dealing with exemptions and deductions. Subsection (p) of section 4, part II, of course, is well known:

(p) The income of farmers' dairymen's, livestockmen's, fruit-growers', poultrymen's, fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis, . . .

Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

This exemption shall extend to companies and associations owned or controlled by such co-operative companies and associations and organized for the purpose of financing their operations.

I had in mind the pools and grain growers of the west. Has an investigation been made into their status, and has it been legally determined that they come within the exemption?

MR. ILSLEY: The business affairs of the pools are under active investigation at the present time. It has not been definitely determined whether they are subject to income tax or not.

MR. HANSON: If the matter is under investigation, that is enough for me.

Financial publications in Eastern Canada print grain trade anti-Pool propaganda as facts and, it is believed, without charge. Eastern business men are thus deliberately misled and misinformed.

Concluding Remarks

The Pools are big business organizations but they have to be to stay in existence. The history of the co-operative movement in the west shows that little elevator and grain co-operatives had no power or influence and were easily choked off by the grain trade. Only large grain co-operatives can survive.

The Wheat Pools are the creation of western grain producers. The loyalty of these farmers to their own organization even in the blackest years demonstrates the feeling of the men on the land better than words could tell. Thousands upon thousands of farmers would never stay with the Pools if they were the greedy, dishonest, unscrupulous concerns which the grain trade pictures.

It may be possible that, by artful measures, the grain trade can destroy the Wheat Pools, or at least render innocuous their efforts to follow true co-operative principles. Then the grain trade could say, "Why the Pools are nothing more or less than line elevator companies!" The crowning indignity!

However, the hard-bitten farmers of the prairie provinces are not easily beaten. If frustrated in one avenue of seeming opportunity, they are likely to explore others. Never will they again become servile slaves of the grain trade and its associate interests.

Income Tax and The Pool

(Calgary Herald, May 16, 1942)

"A long continued campaign by the Canadian grain trade to induce the federal government to collect an income tax from Western Wheat Pools has taken another angle. By paid publicity the trade is endeavoring to prejudice Western grain farmers against the Pools. The suggestion being made is that by paying patronage dividends to members the Pools are diverting funds which it is alleged should be used to repay loans from farmers, with interest, as well as pay income taxes "in the defence of our country". As for repayment of farmer loans or payment in interest thereon, I imagine farmer members of the Pools, along with their friends, understand the Pool business well enough to make any outside advice, no matter how well intentioned, unnecessary. With respect to income tax payments by the Pools there is probably room for argument. It is a matter in which final decision rests with government authorities, following presentation of argument from both sides. It is suggested that there has been considerable 'lobbying' at Ottawa in connection with this matter. I have no patience with this lobbying business, firm as I am in a belief that its effect is detrimental to the cause of honest and impartial government. One thing in the grain trade publicity I don't like is a suggestion that the Pools (farmer owned) are limiting production of war supplies by not paying income taxes, thus endangering the safety of our fighting men over-

seas. Such a suggestion applied to Western grain producers, is an insult. Producing essential food products as they are doing, at a minimum of profit, if any at all, their contribution to our war effort places them in a class altogether above justifiable criticism."

"Winnipeg Free Press" on Taxation of Co-operatives

An Ottawa correspondent of the *Winnipeg Free Press* wrote in 1941 as follows:

"The fact that agricultural co-operatives are tax-free as far as the federal corporation income tax is concerned, was news to many members of parliament and no doubt to many other people. But everyone around Ottawa knows about it now. This seems to be the upshot of the recent flurry of agitation over the question of taxing co-operatives.

"Not long ago a district income tax official laid down the ruling that all co-operatives who distributed dividends to stockholders as well as to patrons would be subject to income tax. The legal point involved turned upon the distinction between regular joint stock companies whose profits accrue to shareholders and legitimate co-operatives whose profits accrue as patronage dividends. Some co-operatives, it appears, include a small element of stockholding in their setups.

"The attitude of federal tax collectors, whose sense of smell for any collectible tax sums has been sharpened to razor edge by long years of experience, is that every person and every organization that is taxable must pay taxes. But co-operatives are specifically exempt and there has never been any doubt about that. The ruling made by the western tax official has not been sustained by the department and it has not created any change in the situation. The co-ops could have discovered that by consulting the experts of the national revenue department.

"But the national revenue and finance departments began to be flooded with resolutions and letters of protest. Moreover, the mail of members of parliament became swollen with similar protests. Everyone began to ask: 'What is all this about the Pools and co-operatives?' The special exemption enjoyed by the co-operatives was never in danger, it is learned, and the net result has been a great deal of attention attracted to the fact that it exists. There may be some sniping at them as a result. The privileged interests of Eastern Canada have learned greater wisdom in their time—they don't advertise their privileges."



